COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF KENTUCKY POWER COMPANY PURSUANT TO 807 KAR 5:056E, SECTIONS 1(11) AND (12)	)	CASE NO. 8058

O R D E R

Pursuant to 807 KAR 5:056E, Sections 1(11) and (12), and following proper notice, a hearing was held on January 27, 1981, to review the operation of the standard fuel adjustment clause; to determine the amount of fuel cost that should be transferred (rolled-in) to the base rates of the Applicant; and to re-establish the fuel adjustment clause charge.

In response to the Commission's request for information, the Applicant filed data showing by month, for the period November 1978 through November 1980, the price paid for coal, freight costs, unit availability, unit performance, and the cost per kwh of net generation. In response to the request, the Applicant stated its intent to use September 1980 as the test month or base period for purposes of arriving at the base fuel costs (F(b)) and kwh sales (S(b)), the components of the standard fuel adjustment clause. The base fuel cost rate requested using data for the month of September 1980 was 14.33 mills per kwh.

In establishing the level of base fuel cost to be included in the Applicant's rates, the Commission must determine whether the base period cost per net kwh generated is normal or representative of the level of fuel cost actually being experienced by the Applicant. The Commission's review of data filed by the Applicant discloses that the cost of net generation from the Big Sandy Units 1 and 2 in July, August, September and October of 1980 was 12.43, 12.80, 12.88 and 12.78 mills per kwh, respectively. Further, the Commission's analysis of the Applicant's fuel clause filings discloses that actual fuel cost for the six months ending December 1980 ranged from a low of 13.87 mills per kwh in July of 1980 to a high of 15.90 mills in August 1980.

The Applicant presented prefiled testimony and exhibits of two witnesses on the question of unrecovered fuel cost due to the roll-in to base rates of fuel cost currently being recovered through the fuel adjustment clause rate. William N. D'Onofrio, Assistant Treasurer, Treasury Staff of American Electric Power Service Corporation, presented an example which he testified would demonstrate that the actual fuel cost incurred in the two months preceding the month of the roll-in is never fully recovered. The example was intended to demonstrate what occurred when the company rolled-in the fuel cost under the standard fuel adjustment clause in November 1978. Mr. D'Onofrio's example was presented under three assumptions. First, he shows what the unrecovered fuel cost due to roll-in would be assuming no change in billing lag. Next, he assumes an increase in the billing lag with no change in the base fuel cost (i.e., no roll-in), and calculates an over-recovery. In his last analysis he combines the previous examples (i.e., assumes an increase in the base fuel cost and an increase in the billing lag) and calculates an under-recovery. The substance of his testimony is that the third analysis demonstrates what in fact happened in November of 1978 as the result of the roll-in of fuel cost to the base rates and an increase in the lag in billing the fuel adjustment clause rate.

Accepting the analysis made by Mr. D'Onofrio, Mr. John Via, Assistant Treasurer of Kentucky Power, then calculates an under-recovery in the amount of $735,168 as a result of the roll-in in November of 1978 of fuel cost from the fuel adjustment clause rate to the base rates of the company.

The Commission has analyzed the testimony and exhibits of these two witnesses. Based on this analysis, the Commission concludes that the assumption underlying all three examples presented by Mr. D'Onofrio is that fuel cost included in the base rates and billed each month is solely for recovery of the base fuel cost incurred in rendering service in that same month.

The under-recovery of $735,166 presented in Via Exhibit I is predicated on this assumption. Therefore, the validity of this assumption is critical to the accuracy of the calculated under-recovery due to the roll-in of fuel cost in November of 1978.

In evaluating this assumption, the Commission reviewed the billing cycles presented as appendices to Mr. Via's exhibits and presented in response to the request for information. The company bills its customers daily on a cycle basis, which means that if one assumes a cycle is billed within two to three days after the meter is read, the bills rendered in any particular month will be for a part of the current month's usage and a part of the prior month's usage. Since customers are billed in arrears for service (i.e., billed only after service is used), when an electric utility bills a cycle on the sixteenth of the month, assuming three days from meter reading to billing, the service being billed is for a period from the thirteenth of the preceding month to the thirteenth of the month the bill is rendered. Thus, it is impossible for an electric utility to bill in any particular month for the fuel cost actually consumed by its customers in that month. For this reason the Commission concludes that the Applicant's assumption is invalid, that assumption being that base fuel cost billed in a given month is solely for recovery of the base fuel cost incurred in rendering service in that month.

With the above discussion in mind, a review of what transpired in November 1978 is in order. The Commission approved a base fuel cost of 12.05 mills for all bills rendered on and after November 1, 1978. Mr. Via's calculation, in Exhibit I, of the under-recovery of fuel cost resulting from the November 1978 roll-in completely ignores the fact that bills rendered in November are, on average, for one-half of the customer's usage in November and one-half of his usage in October, and thus ignores the obvious fact that one-half of the fuel cost for October is being recovered through bills rendered in November. Since one-half of the October usage was billed in November of 1978 at the new base cost, one-half of the increase or decrease in October actual fuel cost, over the base fuel cost of 8.79 mills prior to roll-in, was included in the base fuel cost of 12.05 mills after roll-in. Therefore, one-half of the increase in October's actual fuel cost was in fact billed on approximately one-half of October's usage in November. The Commission believes this fact alone, when considered in the calculation contained in Via Exhibit I, would materially reduce the alleged under-recovery contained therein. Without knowing the kwh sales in October of 1978 actually billed in November 1978, the Commission cannot quantify the precise effect of this invalid assumption on the results contained in Mr. Via's Exhibit I.

The Commission draws one other conclusion from this analysis. If the billing lag applicable to the fuel adjustment clause rate had not changed, an under-recovery would have occurred as a result of the November 1978 roll-in. The Commission will now analyze how this under-recovery would occur.

For this example, three assumptions are made. First, it is assumed that the Commission approves a base fuel cost of 14.33 mills effective for bills rendered on and after April 1, 1981. Second, it is assumed that the former base fuel cost prior to roll-in was 12.05. And third, it is assumed that the actual fuel cost for February and March of 1981 is 15.11 and 14.52 mills, respectively. Since one-half of February sales would be billed in February and the other one-half in March, the base fuel cost of 12.05 would apply to both. Thus, for February usage the applicable fuel adjustment clause rate would be 3.06 mills (15.11 less 12.05) and would be recovered from customers beginning with the first cycle billed in April of 1981.

Recovery of the March fuel cost is not as easily computed since one-half of the sales billed in March would be subject to the base fuel cost of 12.05 and the other one-half billed in April would be subject to the new base fuel cost of 14.33.

While a precise calculation cannot be made, it is the view of the Commission that a reasonable solution to this problem is to average the sum of the base fuel cost prior to roll-in of 12.05 mills and of the base fuel cost after the roll-in of 14.33 mills, which results in a figure of 13.19 mills. Thus, the fuel adjustment clause rate applicable to March usage would be 1.33 mills (14.52 less 13.19) and would be recovered from customers beginning with the first cycle billing in May of 1981. The Commission believes that the use of this procedure will eliminate any material impact on the company or its customers due to transfer (roll-in) of the fuel cost to the base rates.

The Commission, after review of the evidence of record and being advised, FINDS:

(1) That the Applicant has complied in all material respects with the provisions of 807 KAR 5:056E, Uniform Fuel Adjustment Clause.

(2) That the test month of September 1980 should be used as the base period in this proceeding.

(3) That the Applicant's calculation of under-recovery of fuel cost due to the November 1978 roll-in of fuel cost is based on an invalid assumption which would, if eliminated from the calculation, reduce significantly or eliminate the under-recovery shown in Via Exhibit I.

(4) That the Applicant's request for establishment of a base fuel cost of 14.33 mills should be granted.

(5) That the establishment of a base fuel cost of 14.33 mills will require a transfer of .228¢ per kwh from the fuel adjustment clause rate to the Applicant's base rates and can best be accomplished by an energy adder to each kwh sold.

(6) That the transfer of fuel cost to the Applicant's base rates will not result in any additional net income to the Applicant.

(7) That the Applicant should be required to file revised rates and charges designed only to reflect the transfer (roll-in) to base rates of the differential between the old base fuel cost of 12.05 mills and the new base fuel cost of 14.33 mills.

(8) That the revised rates should be approved for bills rendered on and after April 1, 1981.

(9) That the fuel adjustment charge rate for February usage to be billed in April should be calculated using the base fuel cost, prior to the roll-in, of 12.05 mills.

(10) That the fuel adjustment charge for March usage to be billed in May should be computed using a base fuel cost of 13.19 mills per kwh, which is the average of the 12.04 mills base fuel cost prior to roll-in and the 14.33 mills base fuel cost after roll-in.

IT IS THEREFORE ORDERED that the Applicant's request to establish a base fuel cost of 14.33 mills per kwh be and it is hereby approved, effective for bills rendered on and after April 1, 1981.

IT IS FURTHER ORDERED that the base fuel cost to be used for the purpose of computing the fuel adjustment clause rate for February fuel cost is 12.05 mills, which is the base fuel cost before roll-in.

IT IS FURTHER ORDERED that the base fuel cost to be used for purposes of computing any increase or decrease in fuel cost for March is 13.19 mills and for succeeding months 14.33 mills.

IT IS FURTHER ORDERED that the Applicant shall file within twenty (20) days of the date of this Order its revised tariff sheets setting out the revised rates required to effect the transfer of .228¢ per kwh from the current fuel adjustment clause rate to the base rates of the Applicant.

IT IS FURTHER ORDERED that the Applicant's request for recovery of an alleged under-recovery of fuel cost due to the November 1978 roll-in be and is hereby denied.

Done at Frankfort, Kentucky, this 13th day of March, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

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Commissioner

ATTEST:

Secretary